

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL	)	
GAS COMPANY, INC. FOR A CERTIFICATE	)	
OF CONVENIENCE AND NECESSITY TO	)	CASE NO. 91-022
CONSTRUCT A NATURAL GAS DISTRIBUTION	)	
SYSTEM IN BEATTYVILLE, KENTUCKY	)	

O R D E R

On January 18, 1991, Delta Natural Gas Company, Inc. ("Delta") filed with the Commission its application seeking a Certificate of Convenience and Necessity to construct a natural gas distribution system in Beattyville, Kentucky.

The Commission by Order entered March 27, 1991 granted Delta a Certificate of Convenience and Necessity to construct the gas system in Beattyville, Kentucky, with a total estimated cost of \$808,750, of which the city of Beattyville would contribute \$350,000. Therefore, Delta's total estimated investment was \$458,750.

On February 20, 1992, Delta filed with the Commission its motion for confirmation of the Commission's Order of March 27, 1991 with a significant increase in the cost of the construction to \$1,500,000, with the city of Beattyville's participation of \$350,000 or an estimated Delta investment of \$1,150,000. Most of the increase came from Delta's poor estimate which was based on an incomplete preliminary project design.

Delta filed with this Commission bids received from contractors for the construction of the Beattyville gas system, which show the cost of the construction of the distribution facilities to be higher than Delta's final estimate. In an informal conference with Commission Staff, Delta stated that the bids received for the construction of the distribution system were unreasonably high and that Delta is able to install the Beattyville distribution system with its own crews at its final estimated cost. In addition, Delta has included in its estimate a higher contingency due to a larger percentage of rock than Delta's usual projects.

The cost of construction of the gas facilities in Beattyville is substantially higher than the normal extension cost experienced by Delta. The additional cost is due to the need for a 4.1 mile transmission line and crossing the North and South Forks of the Kentucky River. Additionally, a higher total footage of pipe than originally estimated is required for the distribution system to serve the potential customers.

The estimated number of customers to be served by the extension is 301. Delta's policy as stated in its tariff on file with the Commission is to pay for 200 feet of main extension per customer. Based upon Delta's customer estimate, its extension policy would provide 60,200 feet of pipe, or 2,571 feet less than the extension line required from the proposed transmission line to the city of Beattyville of about 62,771 feet. Delta estimates this project may have an impact on current customer's rates of 1.5 cents to 2.2 cents per Mcf or an average annual increase of \$1.05 to \$1.54 per customer per year at the current rates if the costs

were included in the rate base. Delta data shows that Beattyville gas consumption is estimated to be 39,500 Mcf per year and will generate an annual revenue of \$114,654. This level of usage will generate a 0.6 percent marginal return on equity based on the initial consumption data and cost projections presented by Delta. Additional return should be generated in the future if the growth anticipated by Delta does occur. However, it should be noted that without significant future growth this project could only be viewed as marginal at best. While the Commission is interested in facilitating economic development in eastern Kentucky, further expansions of Delta's system, when not economically feasible, will ultimately result in an adverse impact on Delta. In the future, the Commission expects Delta to refine its evaluation of construction projects and improve the accuracy of the cost estimates utilized.

Delta has filed with this Commission the preliminary design and engineering analysis for the project and has already incurred some expenses related to this project. The system maps that were filed with the Commission are within the specifications and safety requirements as outlined in the Commission's safety regulations.

The Commission recognizes that natural gas has become a major energy source in the last two decades and finds the project provides benefits to the city of Beattyville by providing competitive fuel to the end-users. Since the city of Beattyville is providing \$350,000 to the project (which covers a high percentage of the \$401,000 cost of the construction of transmission line as bid by

Dallas Dean, Inc.), and the length of the distribution extension is approximately 209 feet per customer or just over Delta's extension policy of 200 feet per customer, the Commission finds that the construction of the natural gas transmission and distribution system for the city of Beattyville should be approved.

IT IS THEREFORE ORDERED that:

1. Delta is hereby granted a Certificate of Convenience and Necessity to construct the gas transmission and distribution system in Beattyville, Kentucky.

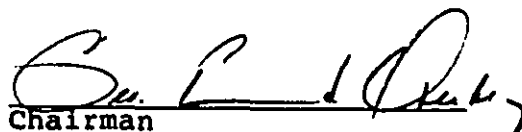
2. Delta shall file with the Commission a construction schedule for both the transmission and distribution system as soon as possible prior to the commencement of the construction work.

3. Delta shall provide the total construction cost of the project no later than 3 months from the date of completion of the facilities.

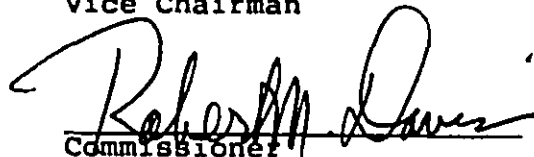
4. Delta shall file with the Commission as-built drawings for the transmission pipeline and a general system map for the distribution system no later than 3 months from the date of completion of the facilities.

Done at Frankfort, Kentucky, this 7th day of May, 1992.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director, Acting